
Minutes

Board of Natural Resources Meeting

October 3, 2006
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Ted Anderson, Commissioner, Skagit County

Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

Doug Sutherland, Commissioner of Public Lands

Bob Nichols, for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington, College of Forest Resources

BOARD MEMBERS ABSENT

Terry Bergeson, Superintendent of Public Instruction

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:05 a.m. on, October 3, 2006, in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Bruce Bare moved to approve the September 5, 2006 Board of Natural Resources Meeting Minutes.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

No public comment for agenda action items.

TIMBER SALES (Action Item)

Proposed Timber Sales for November 2006 (Handout 1)

Jon Tweedale came forward to present. He began with the market update stating that the lumber prices are down significantly from a year ago; the Northwest timber supply is tight and log prices are strong. He said there are some temporary and some permanent curtailments in the market. Most sales are to marketers this month. He added that purchasers are still going strong.

Mr. Tweedale continued by briefing the Board on the success of a contract harvest called Honey Pott Sorts in Northwest Region:

- Advance road work will allow for winter harvesting
- 12 sorts, 10 separate purchasers
- Estimated 3.7 mmbf

- Value \$2 million
- 10 month contract
- \$540/mbf estimated stumpage

Chair Sutherland asked if the cause of the tight market in Eastern Washington was due to availability of product.

Mr. Tweedale said it's due to a combination of supply of logs, high price for logs, and low price for lumber, which is putting a squeeze on margins. It's causing the mills to struggle and forcing them to find their niche.

September 2006 sales results:

9 sales offered & 7 sold; 28.7 mmbf offered & 19.7 mmbf sold; \$11.0 million minimum bid & \$8.2 million sold; \$331/mbf & \$417/mbf sold; average number of bidders is 2.4; 25% above minimum bid.

Proposed November 2006 Board Sales:

9 sales at 31.1 mmbf, \$8.6 million minimum bid, average \$276/mbf.

Chair Sutherland asked about the SEPA letter for the Walkin sale in Whatcom County.

Mr. Tweedale said DNR's State Archaeologist, Lee Stilson, spoke with the person who sent the letter and it was determined that the concerns in the letter had already been identified but the letter writer had not been aware of it.

MOTION: Ted Anderson moved to approve the November 2006 timber sales.

SECOND: Dan Bernardo seconded.

ACTION: Motion passed unanimously.

STATE OF THE STATE LANDS (Handout 2)

Jed Herman presented. He began by stating that the reason the Board is receiving this report is due to the stipulations laid out in resolution 1134.

He discussed a graph showing how much timber DNR has sold in 2005-2006.

- July 2004-June 2005 = FY05 = 598 mmbf sold
 - ❖ Prices were up and sales were brought forth early
- July 2005-June 2006 = FY06 = 526 mmbf sold
 - ❖ Litigation slowed down sales
- Graph shows estimate for FY07 = @ 608 mmbf
 - ❖ Impacts of this year's fire season are being assessed

Sustainable Harvest Targets:

- Western Washington Decadal Average = 597 mmbf/year
- Eastern Washington Decadal Average = 85.8 mmbf/year

Total Decadal Average = 682.8 mmbf/year for Western and Eastern Washington

How does the volume of timber sold compare to the sustainable harvest target?

- Targets vs. Actual - Volume Summary - FY05+FY06
 - ❖ Westside short by 13 mmbf; 1.4% below target

- ❖ Eastside short by 31mmbf; 14.2% below target
- ❖ Statewide results were short 44 mmbf; 3.7% below target

How does the value of timber sold compare to the sustainable harvest target?

- Targets vs. Actual - Volume Summary - FY05+FY06
 - ❖ Westside exceeded target by \$74.5 million; 27.6% more than target
 - ❖ Eastside exceeded target by \$4 million; 7.2% more than target
 - ❖ Statewide almost \$79 million more was earned in revenue than was anticipated by the SH calculation; 24% more than target

What types of harvests were within the HCP Northern Spotted Owl Management Areas (average acres per year for FY05 + FY06)?

For the first two years DNR anticipated doing more thinning. Some requirements from resolution 1134 and the settlement agreement called for Biological pathways thinnings, and the settlement agreement called for 1:1 thinning to regeneration. Litigation held up progress on doing some of the planned activities in these areas. DNR could only do habitat enhancement in non-habitat portions.

How will DNR reinvest in the Trust assets after timber is harvested?

Silvicultural activities are conducted per site specific prescriptions, which are developed prior to timber harvest.

DNR reforests trust lands beyond the minimum required by Forest Practices, to the level that produces optimum return on investment and considers other important objectives, such as habitat enhancement.

The number of acres planted is higher than harvest due to catching up on backlog.

Vegetation management is needed on almost every acre that's been replanted and is done to control competing plants or shrubs that reduce growth or survival of conifer species. This is accomplished by hand cutting some species for other species. Herbicides are applied on the ground or by aerial sprays:

- Hand = 56%
- Herbicides = 42%
- Burning = 2%

Additionally, surveys are conducted to identify:

- Need for prep site
- Stocking levels
- Survival of planted stock
- Vegetative competition
- Pest damage
- Need for thinning

Webster Nursery produces about 9 million seedlings a year and sells most of them to DNR; provides some to the public and other contractors.

What new information could impact implementation of the sustainable harvest?

The recalculation of the Sustainable Harvest is underway and will consider:

- Settlement Agreement
- Riparian Forest Restoration Strategy
- Westside Old Growth Definition
- Lake Whatcom
- Older Forests

The recalculation will be completed by late winter/early spring 2007.

What are some of the social and cultural benefits realized in this year?

Cultural Resources:

- The program has a professional archaeologist on staff and trained cultural resource technicians in each region
- DNR is developing a separate cultural resources training module for Westside regions and will conduct training in 2007
- The foresters are being informed about what resource types are on the Westside lands and what to do about them

Public Use on State Lands:

- Goal over the next 15 years is to do inventory, assess, and then make decisions on 100% of the trust lands used by the public
- Details about this program will be presented at the next Board meeting (November)

Largest Fire Season since the 1970's:

- Impacts still being assessed.

Mr. Nichols asked if cultural resources were exclusively tribal.

Mr. Herman said it covers tribal and historical aspects.

Chair Sutherland noted that over half of DNR employees are able to participate in the fire program in some capacity. This summer's fire season will have two impacts on the Department including the loss of productivity while employees were assigned to fire, and the time it will take to get back to normal levels of productivity after employees have worked long and hard hours on the fires. He also added that safety was top notch this fire season.

What's the status of our forest roads?

The following data is for calendar year 2005:

Miles of roads:

- Active Roads - 11,526
- Construction - 150
- Reconstruction - 215
- Active Forest Roads Abandoned - 155
- Roads Decommissioned – 33
 - ❖ Fish barriers removed (number completed) - 86
 - ❖ Stream miles opened up for fish passage - 43

DNR is responsible for maintaining/repairing 12,000 miles of forest roads. DNR road planning is accomplished through Road Maintenance and Abandonment Plans (RMAPS), as required by Forest Practices Rules.

RMAP's were done the first five years of the rule, and fish barriers must be removed within 15 years. In 2001, 1,840 fish barriers were identified, and as of 2005, 418 have been removed. Each barrier removed opens up ½ mile of stream and 209 miles of stream have opened up since 2001.

DNR expects to restore all fish passages by the deadline of 2016 and there is the budget to complete it.

Mr. Anderson added that the Counties are involved with removing fish blockages and he suggested a cooperative partnership to achieve these goals.

Mr. Herman said the Department is already taking that approach and will continue down that path.

What are the major non-timber programs and how much revenue do they earn?

Fiscal Year 2006 - Dollars in Millions

- Agricultural Leases \$9.1
- Grazing Leases \$0.7
- Commercial Real Estate \$8.8
- Special Forest Products \$0.6
- Special Use Leases \$0.9
- Communication Sites \$3.3
- Minerals, Oil, & Gas \$3.5
- Rock, Sand, & Gravel \$1.3
- Rights of Way \$0.5
- ❖ Leasing Total \$28.7

Mr. Bernardo raised the point that the Department should be looking at the return on the asset (dry land, irrigated, orchards, and commercial leases) for the beneficiaries. He noted that from a portfolio standpoint the absolute values of the revenues don't tell as much as a percentage rate of return would.

Mr. Herman agreed and added that it's something the agency is always looking at. Some of the lands that came to the State didn't involve an initial investment so some of the information is a little difficult to come by. However, the agency is really targeting irrigated lands, wineries, and other income generating assets.

Mr. Bernardo said DNR needs to look at the future in dry land leases.

Mr. Nichols asked for a breakdown of the land dedicated to conservation.

Mr. Herman provided the following:

125,000 acres leased to WDFW for wildlife habitat (now the subject of an exchange between DNR and WDFW)

45,000 acres enrolled in the federal Conservation Reserve Program - to reduce erosion and support wildlife

30,000 acres, leased but not producing harvested crops - examples: staging areas, rock outcroppings, areas that can/should not be farmed, inaccessible areas, etc. - remaining mostly in natural condition

How Much total revenue was earned in Fiscal Year 2006 (dollars in millions)?

- Leasing \$28.7
- Timber Sales* \$207.8
- *Revenue from timber removals
- Total Revenue \$236.5

For comparison:

FY05: 695 mmbf removed and \$211million revenue earned

FY06: 632 mmbf removed and \$207 million revenue earned

DNR Revenue Forecast - June 2006 - Anticipated revenue from removals:

- FY07 582 mmbf removed @ \$356/mbf, for \$207 million in revenue

- FY08 623 mmbf removed @ \$341/mbf, for \$212.7 million in revenue

How does the Board want to manage the RMCA fund balance?

Mr. VanSchoorl presented and began by discussing a graph that showed significant cost reductions achieved in 2001 through 2004. The graph showed that costs began to increase along with retainage as the Sustainable Harvest Plan was implemented.

He then explained that the current management fund retainage at 30% expires at the end of the 2007 and will return to 25%.

Mr. VanSchoorl informed the Board that DNR is proposing legislation that would give the Board authority to set the retainage up to 30%. Note that at 30% the ending fund balance in the RMCA would grow substantially. Current policy establishes the minimum fund balance as 3 months operating reserve. This minimum fund balance is depicted on the graph by a red line (\$10 million dollars).

The same graph showed 6 months of operating reserve at \$20 million dollars and 9 months operating reserve at \$30 million dollars. He said the Board may want to consider setting a maximum fund balance as well. The Board could keep the ending fund balance within the established range by lowering or suspending the retainage or rebating the excess to the beneficiaries. He added that the Board has utilized these options in the past when the fund balance grew too large.

Mr. Bare asked what the risks were for carrying a large fund balance.

Mr. VanSchoorl responded that large balances can be diverted to other things by the legislature but the risk for this particular fund is smaller because the Court has ruled that it's a trust fund asset.

Mr. Anderson commented that it would be difficult to keep the percentage low, reserve healthy, and at the same time have the enhanced silvicultural activities. He felt that stands need to be treated now and into the future and these elements should be considered when setting the percentage.

Mr. VanSchoorl agreed and added that when Mr. Mackey put the budget request together those elements were considered.

CHAIR REPORTS

Aquatics HCP Briefing

Rich Doenges presented. He began by stating that the project objectives are to protect the state's proprietary interests, minimize the state's financial and legal liability, manage habitat in a way that contributes to reduced risk of extinction and species recovery.

He discussed the project timeline:

2003-2005 – Research and information gathering

2006-2007 – Habitat Conservation Plan (HCP) & Environmental Impact Statement (EIS) development; additional research; outreach; NEPA/SEPA

2007 – Public Review of Draft Habitat Conservation Plan & Environmental Impact Statement

2009 – Adoption & implementation

He said the project habitat area consists of 2.4 million acres of state-owned aquatic lands:

25% Near shore

56% Offshore

4% Rivers

15% Lakes

Project Development Species Analysis:

- Listing status
- Occurrence on State-Owned aquatic lands
- Vulnerability from authorized activities
- Benefit from coverage
- Biological information
- Existing or easily developed conservation measures

Project Development Activities Analysis:

- Aquaculture
- Sediment
- Mitigation activities
- Outfalls
- Over water structures
- Marinas and Terminals
- Transportation
- Utility lines

He said step one in data analysis is database construction and step two is geographic distribution.

He listed the species:

- Columbia Spotted Frog
- Northern Leopard Frog
- Western toad
- Western pond Turtle
- Common Loon
- Bald Eagle
- Western Snowy Plover
- Brown Pelican
- Black Tern
- Harlequin Duck
- Marbled Murrelet
- Chum
- Bull Trout
- Green Sturgeon
- Chinook
- Coho
- Pink
- Coastal Cutthroat
- Sockeye Kokanee
- Steelhead
- Southern Resident Killer Whale

Activities:

- Complex activities - marinas, shipyards, and terminals
- Aquaculture – shellfish, netpen
- Over water structures – Docks, Mooring buoys, buildings, boat hoists/ramps
- Public access

- Log Booming and Storage
- Commercial sand and gravel removal
- Small scale mining

Activities not included in the HCP:

- Port management areas
- Flood, wave and erosion control
- Utility easements
- Dredging and dredged material management
- Derelict structure and derelict vessel removal
- Conservation activities
- Outfalls and intakes
- Artificial habitat
- Transportation facilities

Comparing DNR's HCP's

Forest Trust Lands:

- ❖ State Ownership
- ❖ Requires ongoing implementation funding
- ❖ All listed species
- ❖ Implemented via management decisions

Forest & Fish:

- ❖ Multi-Species
- ❖ Requires ongoing implementation funding
- ❖ State & Private Ownership
- ❖ Programmatic implementation

Aquatics HCP:

- ❖ State Ownership
- ❖ Multi-Species
- ❖ Requires ongoing implementation funding
- ❖ Implemented via contracts (5-30 years)
- ❖ Multi-Jurisdictional

Next Steps:

- Continued stakeholder outreach
- NEPA/SEPA begins in October 2006
- Negotiations begin in 2006
- Draft HCP & EIS - Fall 2007
- HCP adopted 2008-2009

Confirmation of Vicki Christiansen as Executive Director of Regulatory Programs

MOTION: Bruce Bare moved to approve the confirmation of Vicki Christiansen as Executive Director of Regulatory Programs.

SECOND: Ted Anderson seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

Bob Dick – American Forest Resource Council

Mr. Dick commented that there is intense competition for raw material/wood in the industry and particularly in Northwest Washington. He said that not everyone is going to survive the competition and that the stumpage prices are not justified by the market. He commented on the Forest Service's role in fire for the last 100 years. He said the fire program will be in trouble because of retiring experts in the field and a lack of funding which could have a negative effect on DNR because the responsibility will fall on the state. He pointed out that the assets and income produced by DNR produces a chain of events that goes beyond DNR.

Meeting adjourned at 10:50 a.m.

Approved this ____ day of _____, 2006

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Christine Gregoire

Bruce Bare, Dean, University of Washington

Daniel J. Bernardo, Dean, Washington State University

Terry Bergeson, Superintendent of Public Instruction

Ted Anderson, Commissioner, Skagit County

Attest:

Sasha Lange, Board Coordinator